



## **Hillsdale Board of Public Utilities**

Financial Report  
With Supplemental Information  
Prepared in Accordance With GASB 34

30-7512  
June 30, 2004

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <i>Hillsdale City Board of Public Utilities</i>		County <i>Hillsdale</i>
Audit Date <i>6/30/04</i>	Opinion Date <i>8/4/04</i>	Date Accountant Report Submitted to State: <i>3/4/05</i>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.  
*Note: Hillsdale City BPU is a component unit of the City of Hillsdale.*
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <i>Willis &amp; Jurasek, P.C., CPAs</i>			
Street Address <i>2545 Spring Arbor Road</i>	City <i>Jackson</i>	State <i>MI</i>	ZIP <i>49204</i>
Accountant Signature <i>Nancy Z. Boston, CPA</i>			

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## Independent Auditors' Report

Board Members  
Hillsdale Board of Public Utilities  
Hillsdale, Michigan

We have audited the accompanying financial statements of the business-type activities and each major fund of the Hillsdale Board of Public Utilities, Enterprise Funds of the City of Hillsdale, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hillsdale Board of Public Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Hillsdale Board of Public Utilities Enterprise Funds and are not intended to present fairly the financial position of the City of Hillsdale, and the changes in its financial position and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Hillsdale Board of Public Utilities as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Hillsdale Board of Public Utilities has not presented Management's Discussion and Analysis (MD&A) as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be, part of the financial statements. The Hillsdale Board of Public Utilities has elected not to prepare such analysis, but encourages users of these financial statements to read the MD&A contained in the annual financial report of the City of Hillsdale for the year ended June 30, 2004.

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### WILLIS & JURASEK, P.C.

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Board Members  
Hillsdale Board of Public Utilities

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hillsdale Board of Public Utilities basic financial statements. The accompanying supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The current year supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole. The supplemental information includes for comparative purposes, financial statements as of June 30, 2003, which were audited by other auditors whose report dated August 27, 2003, expressed an unqualified opinion on those statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 4, 2004, on our consideration of the Board's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

August 4, 2004



**Independent Auditors' Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards**

Board Members  
Hillsdale Board of Public Utilities  
Hillsdale, Michigan

We have audited the financial statements of the Hillsdale Board of Public Utilities as of and for the year ended June 30, 2004, and have issued our report thereon dated August 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hillsdale Board of Public Utilities financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the board of directors of the Hillsdale Board of Public Utilities in a separate letter dated August 4, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hillsdale Board of Public Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

August 4, 2004

**WILLIS & JURASEK, P.C.**

2545 Spring Arbor Road  
Post Office Box 39  
Jackson, Michigan 49204-0039

**Hillsdale Board of Public Utilities**  
**Statement of Net Assets**  
June 30, 2004

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Business Type Activities</u>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 1,092,866	\$ -	\$ 190,361	\$ 1,283,227
Receivables:				
Customer accounts, net of allowance for doubtful accounts of \$120,000	998,672	69,780	84,106	1,152,558
Interest	9,778	2,875	5,099	17,752
Other	-	-	-	-
Due from other funds of BPU	14,507	-	1,019,112	1,033,619
Due from other funds of City	7,796	-	63,075	70,871
Inventories	639,349	93,103	5,624	738,076
Prepaid expenses	74,682	16,192	26,713	117,587
Total current assets	<u>2,837,650</u>	<u>181,950</u>	<u>1,394,090</u>	<u>4,413,690</u>
Restricted and designated assets:				
Designated investments	2,024,539	223,859	266,026	2,514,424
Restricted investments	-	600,926	560,633	1,161,559
Total restricted and designated assets	<u>2,024,539</u>	<u>824,785</u>	<u>826,659</u>	<u>3,675,983</u>
Capital assets:				
Property, plant and equipment, at cost	27,816,415	9,980,214	12,998,609	50,795,238
Less: accumulated depreciation	<u>15,693,740</u>	<u>3,925,835</u>	<u>8,484,151</u>	<u>28,103,726</u>
Total capital assets (net)	<u>12,122,675</u>	<u>6,054,379</u>	<u>4,514,458</u>	<u>22,691,512</u>
Other assets:				
Investment in M.S.C.P.A.	<u>3,204,359</u>	-	-	<u>3,204,359</u>
Total assets	<u>20,189,223</u>	<u>7,061,114</u>	<u>6,735,207</u>	<u>33,985,544</u>

See Notes to Financial Statements

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Business Type Activities</u>
<b>Liabilities</b>				
Current liabilities payable from current assets:				
Accounts payable	\$ 38,303	\$ 10,500	\$ 25,365	\$ 74,168
Accrued purchased power	725,851	-	-	725,851
Due to other funds of BPU	-	1,020,155	13,464	1,033,619
Due to City	29,671	2,257	12,701	44,629
Customer deposits	10,224	1,080	-	11,304
Accrued liabilities:				
Payroll taxes	15,340	-	-	15,340
Other	53,233	-	-	53,233
Total current liabilities payable from current assets	<u>872,622</u>	<u>1,033,992</u>	<u>51,530</u>	<u>1,958,144</u>
Current liabilities payable from restricted assets:				
Bonds payable	-	235,000	140,000	375,000
Accrued interest	-	40,720	6,800	47,520
Total current liabilities payable from restricted assets	<u>-</u>	<u>275,720</u>	<u>146,800</u>	<u>422,520</u>
Compensated absences payable	<u>81,251</u>	<u>30,749</u>	<u>31,926</u>	<u>143,926</u>
Long-term debt, net of current maturities:				
Bonds payable	<u>-</u>	<u>3,580,000</u>	<u>1,220,000</u>	<u>4,800,000</u>
Total liabilities	<u>953,873</u>	<u>4,920,461</u>	<u>1,450,256</u>	<u>7,324,590</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	12,122,677	2,239,379	3,154,459	17,516,515
Restricted for debt service	-	600,925	560,633	1,161,558
Unrestricted (deficit)	<u>7,112,673</u>	<u>(699,651)</u>	<u>1,569,859</u>	<u>7,982,881</u>
Total net assets	<u>\$ 19,235,350</u>	<u>\$ 2,140,653</u>	<u>\$ 5,284,951</u>	<u>\$ 26,660,954</u>



**Hillsdale Board of Public Utilities**  
**Statement of Revenues, Expenses**  
**and Changes in Net Assets**  
**For the Year Ended June 30, 2004**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Business Type Activities</u>
<b>Operating Revenue</b>				
Sales to customers:	\$ 3,075,211	\$ 454,808	\$ 444,044	\$ 3,974,063
Residential	957,840	123,538	115,750	1,197,128
Business	2,325,427	194,147	199,593	2,719,167
Commercial	3,765,529	117,313	152,612	4,035,454
Industry	-	215,664	214,467	430,131
Apartment	34,197	-	-	34,197
Street light sales	31,141	3,265	22,853	57,259
Other operating income				
	<u>10,189,345</u>	<u>1,108,735</u>	<u>1,149,319</u>	<u>12,447,399</u>
<b>Total operating revenue</b>				
<b>Operating Expenses</b>				
Purchased power	7,445,141	-	-	7,445,141
Production expense	948,546	63,012	-	1,011,558
Transmission and distribution	935,666	-	-	935,666
Collection system expense	-	-	204,281	204,281
Treatment expense	-	-	588,623	588,623
Purification expense	-	205,026	-	205,026
Distribution expense	-	304,850	-	304,850
Administrative and general	884,882	222,606	197,636	1,305,124
	<u>10,214,235</u>	<u>795,494</u>	<u>990,540</u>	<u>12,000,269</u>
<b>Total operating expenses</b>				
<b>Operating Income</b>	<u>(24,890)</u>	<u>313,241</u>	<u>158,779</u>	<u>447,130</u>
<b>Non-operating Revenue (Expense)</b>				
Interest income	29,010	9,870	10,404	49,284
Interest expense	-	(165,657)	(29,225)	(194,882)
Other non-operating income (expense)	66,155	18,702	(1,987)	82,870
	<u>95,165</u>	<u>(137,085)</u>	<u>(20,808)</u>	<u>(62,728)</u>
<b>Total non-operating revenue (expense)</b>				
<b>Change in Net Assets</b>	70,275	176,156	137,971	384,402
<b>Net Assets, Beginning of Year</b>	<u>19,165,075</u>	<u>1,964,497</u>	<u>5,146,980</u>	<u>26,276,552</u>
<b>Net Assets, End of Year</b>	<u>\$ 19,235,350</u>	<u>\$ 2,140,653</u>	<u>\$ 5,284,951</u>	<u>\$ 26,660,954</u>

**Hillsdale Board of Public Utilities**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2004**

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Cash Flows from Operating Activities</b>				
Cash received from customers, residents and users	\$10,098,040	\$1,107,436	\$ 796,463	\$12,001,939
Other operating receipts	31,141	3,265	22,853	57,259
Cash paid to employees and suppliers	(9,855,229)	(320,305)	(704,617)	(10,880,151)
Net cash provided by operating activities	<u>273,952</u>	<u>790,396</u>	<u>114,699</u>	<u>1,179,047</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Bond payments on capital debt	-	(225,000)	(135,000)	(360,000)
Interest payments on capital debt	-	(168,434)	(29,900)	(198,334)
Purchase of capital assets, net	(987,194)	(515,216)	(204,340)	(1,706,750)
Net cash used by capital and related financing activities	<u>(987,194)</u>	<u>(908,650)</u>	<u>(369,240)</u>	<u>(2,265,084)</u>
<b>Cash Flows from Investing Activities</b>				
Proceeds from sale of investments	300,000	114,851	80,000	494,851
Purchase of investments	(64,341)	(21,735)	(26,598)	(112,674)
Other non-operating income received	99,133	12,098	18,727	129,958
Other non-operating expenses	-	-	-	-
Interest income received	34,868	13,040	10,195	58,103
Net cash provided by investing activities	<u>369,660</u>	<u>118,254</u>	<u>82,324</u>	<u>570,238</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<u>(343,582)</u>	<u>-</u>	<u>(172,217)</u>	<u>(515,799)</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,436,448</u>	<u>-</u>	<u>362,578</u>	<u>1,799,026</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,092,866</u>	<u>\$ -</u>	<u>\$ 190,361</u>	<u>\$ 1,283,227</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>				
Operating income	\$ (24,890)	\$ 313,241	\$ 158,779	\$ 447,130
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	646,756	188,260	272,416	1,107,432
(Increase) decrease in:				
Receivables	(49,564)	4,008	(4,117)	(49,673)
Due from other funds	(16,082)	-	(325,886)	(341,968)
Inventories	4,601	(16,119)	581	(10,937)
Prepays	(19,766)	(4,352)	(4,294)	(28,412)
Investment in M.S.C.P.A.	(16,050)	-	-	(16,050)
Increase (decrease) in:				
Accounts payable	(244,681)	(26,546)	(11,653)	(282,880)
Accrued expenses	(25,443)	4,760	2,708	(17,975)
Due to other funds	29,671	329,186	26,165	385,022
Customer deposits	(10,600)	(2,042)	-	(12,642)
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 273,952</u>	<u>\$ 790,396</u>	<u>\$ 114,699</u>	<u>\$ 1,179,047</u>

See Notes to Financial Statements

# Hillsdale Board of Public Utilities

## Notes to Financial Statements

### Note 1 – Summary of Significant Accounting Policies

The financial statements of the Hillsdale Board of Public Utilities (BPU) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

#### Reporting Entity

The Hillsdale Board of Public Utilities (the BPU) provides electric, water and sewage disposal services to residents of the City of Hillsdale (the City) and nearby townships, as recorded in three separate enterprise funds. Policy is set and operations are directed by a five-member Board.

#### Measurement Focus and Basis of Accounting

The BPU uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The operations of the BPU are accounted for as Enterprise Funds of the City of Hillsdale, Michigan, which are designed to be self-supporting. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and the resulting net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The BPU reports the following major proprietary funds:

**Electric** – This fund accounts for the activities of the BPU's electric generation and distribution systems.

**Water** – This fund accounts for the activities of the BPU's water production, purification and distribution systems.

**Sewer** – This fund accounts for the activities of the BPU's sewer collection and treatment systems.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accrual basis of accounting is utilized by enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of the following subsequent private-sector guidance of their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

# Hillsdale Board of Public Utilities

## Notes to Financial Statements

### Note 1 – Summary of Significant Accounting Policies (Continued)

#### Fund Accounting/Basis of Accounting (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the BPU enterprise funds are charges to customers for sales and services. The BPU also recognizes as operating revenue the portion of fees intended to record the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, demand deposits and certificates of deposits with original maturities of three months or less from the date of acquisition.

State statutes authorize the BPU to invest surplus funds as follows:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States;
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution;
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase;
- Bankers' acceptances of United States banks;
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase, are rated as investment grade by at least one standard rating service;
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation; and
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Investments are stated at fair value.

#### Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

**Hillsdale Board of Public Utilities**  
**Notes to Financial Statements**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Receivables**

All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

**Inventories and Prepaid Items**

Inventories are valued at cost, which approximates market, using the average cost method. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

**Capital Assets**

Capital assets which include land and buildings, plant, vehicles and equipment, and infrastructure assets (e.g., pipes, poles, wire, transformers, and similar items) are reported in the business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized when projects are completed.

Property, plant, and equipment of the BPU is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Production and distribution equipment	10-65
Vehicles	10
Office and computer equipment	5-10

**Net Assets**

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Restricted net assets segregate resources accumulated for debt service payments. Designations of net assets represent tentative management plans that are subject to change.

**Interfund Transactions**

Quasi-external transactions are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund for expenses initially made from it that are properly applicable to another fund, are recorded as expenses in the reimbursing fund and as reductions of expenses in the fund that is reimbursed.

**Hillsdale Board of Public Utilities**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Use of Estimates**

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Pension Plan Funding**

The BPU policy is to fund pension costs as they accrue.

**Compensated Absences**

Accumulated unpaid vacation, sick, and personal days are accrued when earned.

**Note 2 – Deposits and Investments**

A summary of deposits and investments at year-end is as follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$1,282,627
Investments	3,675,983
Cash on hand	<u>600</u>
	<u>\$4,959,210</u>

The deposits of the BPU were reflected in the accounts of financial institutions at \$1,244,783, of which \$147,200 is covered by federal depository insurance.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

At year end, the BPU investment balances were as follows:

	<u>Amount</u>	<u>Risk Category</u>
Certificates of deposit	\$ 199,447	
Mutual and cash		
management funds	455,934	Uncategorized as to risk
U.S. government securities	<u>3,020,602</u>	2
	<u>\$3,675,983</u>	

**Hillsdale Board of Public Utilities**  
Notes to Financial Statements

**Note 3 – Capital Assets**

Capital asset activity of the year ended was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 17,467	\$ -	\$ -	\$ 17,467
Construction in progress	<u>1,381,673</u>	<u>235,672</u>	<u>732,926</u>	<u>884,419</u>
<b>Total capital assets not being depreciated</b>	<u>1,399,140</u>	<u>235,672</u>	<u>732,926</u>	<u>901,886</u>
Capital assets being depreciated:				
Plant and systems	47,993,843	2,235,672	336,163	49,893,352
Accumulated depreciation:				
Plant and systems	<u>27,300,789</u>	<u>1,107,432</u>	<u>304,495</u>	<u>28,103,726</u>
<b>Total capital assets being depreciated, net</b>	<u>20,693,054</u>	<u>1,128,240</u>	<u>31,668</u>	<u>21,789,626</u>
<b>Business-type activities capital assets – net</b>	<u>\$ 22,092,194</u>	<u>\$ 1,363,912</u>	<u>\$ 764,594</u>	<u>\$ 22,691,512</u>

Depreciation expense was charged to operating expenses as follows:

Electric Fund	\$ 646,756
Water Fund	188,260
Sewage Disposal Fund	<u>272,416</u>
	<u>\$ 1,107,432</u>

**Note 4 – Investment in Michigan South Central Power Agency**

The Michigan South Central Power Agency (M.S.C.P.A) was organized in 1978 under the authority of Michigan Public Act 448 of 1976, to supply electricity to member municipalities in South Central Michigan. The Act provides that the agency will establish rates and charges to produce revenues sufficient to cover its costs, but may not operate for profit, except for the benefit of the public. The agency is governed by a Board of Commissioners which is comprised of one representative from each participating municipality and the general manager of the agency.

Participating municipalities and their respective shares of ownership are as follows:

	<u>Percent Of Ownership</u>
City of Coldwater	40.0%
City of Hillsdale	25.5
City of Marshall	24.0
Village of Clinton	6.5
Village of Union City	<u>4.0</u>
	<u>100.0%</u>

**Hillsdale Board of Public Utilities**  
Notes to Financial Statements

**Note 4 - Investment in Michigan South Central Power Agency (Continued)**

The Hillsdale Board of Public Utilities is accounting for its investment in M.S.C.P.A. as a joint venture in accordance with Governmental Accounting Standards Board Statement No. 14. Information presented below is taken from financial statements of the M.S.C.P.A. for the year ended June 30, 2004, audited by other auditors, whose report dated August 12, 2004, expressed an unqualified opinion on those statements.

The BPU has entered into a Power Sales Contract with M.S.C.P.A. which requires the BPU to purchase all of its bulk power supply from M.S.C.P.A. and to pay its share of M.S.C.P.A.'s operating and debt service costs. The BPU has also entered into an agreement for services to be provided by the M.S.C.P.A. in respect to substation facilities and an agreement which requires the BPU to sell to M.S.C.P.A. power generated by its facilities.

The summary information of the BPU investment in the M.S.C.P.A. for the year ended June 30, 2004 is as follows:

	<b>Total M.S.C.P.A.</b>	<b>Hillsdale BPU Portion 25.5%</b>
Total assets	\$ 85,109,361	\$ 21,702,887
Total liabilities	<u>72,543,249</u>	<u>18,498,528</u>
<b>Net Assets</b>	<b><u>\$ 12,566,112</u></b>	<b><u>\$ 3,204,359</u></b>
Operating revenues	\$ 36,757,645	\$ 9,373,199
Operating expenses	<u>28,941,742</u>	<u>7,380,144</u>
<b>Operating Income</b>	<b>7,815,903</b>	<b>1,993,055</b>
Other income and expenses	<u>(7,752,964)</u>	<u>(1,977,005)</u>
<b>Changes in Net Assets</b>	<b>62,939</b>	<b>16,050</b>
<b>Net Assets, Beginning of Year</b>	<b><u>12,503,173</u></b>	<b><u>3,188,309</u></b>
<b>Net Assets, End of Year</b>	<b><u>\$ 12,566,112</u></b>	<b><u>\$ 3,204,359</u></b>



**Hillsdale Board of Public Utilities**  
Notes to Financial Statements

**Note 5 - Long-Term Debt**

Long-term liabilities for the BPU's three enterprise funds for the year ended June 30, 2004, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Business-type activities:</b>					
Revenue bonds:					
1994 Water	\$ 225,000	\$ -	\$ 110,000	\$ 115,000	\$ 115,000
1999 Water	2,155,000	-	95,000	2,060,000	100,000
2002 Water					
Refunding	1,660,000	-	20,000	1,640,000	20,000
1992 Sewer	<u>1,495,000</u>	<u>-</u>	<u>135,000</u>	<u>1,360,000</u>	<u>140,000</u>
	5,535,000	-	360,000	5,175,000	375,000
Compensated absences	<u>139,506</u>	<u>4,420</u>	<u>-</u>	<u>143,926</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 5,674,506</u></b>	<b><u>\$ 4,420</u></b>	<b><u>\$ 360,000</u></b>	<b><u>\$ 5,318,926</u></b>	<b><u>\$ 375,000</u></b>

Revenue bonds consist of the following:

**Water Fund**

Unrefunded portion of 1994 Revenue Bonds – maturing \$115,000 in 2005, plus interest from 5.45% to 5.60%	\$ 115,000
1999 Revenue Bonds – maturing \$100,000 to \$185,000 annually, plus interest from 4.75% to 5.10% through October 1, 2018	2,060,000
2002 Water Revenue Refunding Bonds – maturing \$20,000 to \$190,000 annually, plus interest from 3.00% to 4.00% through October 1, 2014	<u>1,640,000</u> 3,815,000

**Sewer Fund**

1992 Revenue Bonds – Michigan Municipal Bond Authority Revolving Loan Fund payable, maturing \$140,000 to \$165,000 annually, (plus interest at 2.00%) through April, 2013	<u>1,360,000</u> <u>\$ 5,175,000</u>
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# Hillsdale Board of Public Utilities

## Notes to Financial Statements

### Note 5 - Long-Term Debt (Continued)

Annual debt service requirements to maturity on the above governmental bond obligations are as follows:

	Water			Sewer		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 235,000	\$ 156,985	\$ 391,985	\$ 140,000	\$ 27,200	\$ 167,200
2006	245,000	146,496	391,496	140,000	24,400	164,400
2007	250,000	137,189	387,189	145,000	21,600	166,600
2008	260,000	127,614	387,614	150,000	18,700	168,700
2009	270,000	117,696	387,696	150,000	15,700	165,700
2010 - 2014	1,515,000	416,349	1,931,349	635,000	32,100	667,100
2015 - 2019	<u>1,040,000</u>	<u>115,333</u>	<u>1,155,333</u>	-	-	-
Total	<u>\$ 3,815,000</u>	<u>\$ 1,217,662</u>	<u>\$ 5,032,662</u>	<u>\$ 1,360,000</u>	<u>\$ 139,700</u>	<u>\$ 1,499,700</u>

### Note 6 - Employee Retirement System

#### Plan Description

The BPU, in conjunction with the City of Hillsdale, participates in an agent multiple-employer defined benefit public employee retirement system governed by the State of Michigan, entitled Municipal Employees Retirement System (MERS). Information regarding this plan can be found in the City of Hillsdale annual financial statements.

### Note 7 - Risk Management

The BPU is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The BPU carries commercial insurance to cover risks of losses. The BPU settled claims resulting from these risks did not exceed the amount of insurance coverage in any of the past three fiscal years.

### Note 8 - Interfund Receivables and Payables

The composition of interfund balances at year-end is as follows:

Due To/From Other Funds of BPU:	Receivables	Payables
Electric	\$ 14,507	\$ -
Water	-	1,020,155
Sewer	<u>1,019,112</u>	<u>13,464</u>
	<u>\$ 1,033,619</u>	<u>\$ 1,033,619</u>
Due To/From Other Funds of City:	Receivables	Payables
Electric	\$ 7,796	\$ 29,671
Water	-	2,257
Sewer	<u>63,075</u>	<u>12,701</u>
	<u>\$ 70,871</u>	<u>\$ 44,629</u>

The BPU reports interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for the business-type activities. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

## **Supplemental Information**

**Hillsdale Board of Public Utilities**  
**Electric Fund**  
**Statements of Net Assets**  
**June 30, 2004 and 2003**

<b>Assets</b>	<u>2004</u>	<u>2003</u>
Current assets:		
Cash and cash equivalents	\$ 1,092,866	\$ 1,436,448
Receivables (net of allowance for uncollectibles):		
Customer accounts	998,672	949,108
Interest	9,778	15,637
Due from other funds of BPU	14,507	-
Due from City	7,796	6,221
Inventories	639,349	643,950
Prepaid expenses	<u>74,682</u>	<u>54,916</u>
Total current assets	<u>2,837,650</u>	<u>3,106,280</u>
Restricted and designated assets:		
Designated investments	<u>2,024,539</u>	<u>2,293,176</u>
Total restricted and designated assets	<u>2,024,539</u>	<u>2,293,176</u>
Capital assets:		
Property, plant and equipment, at cost	27,816,415	27,046,103
Less: accumulated depreciation	<u>15,693,740</u>	<u>15,263,866</u>
Total capital assets	<u>12,122,675</u>	<u>11,782,237</u>
Other assets:		
Investment in M.S.C.P.A.	<u>3,204,359</u>	<u>3,188,309</u>
Total assets	<u>20,189,223</u>	<u>20,370,002</u>

	<u>2004</u>	<u>2003</u>
<b>Liabilities</b>		
Current liabilities payable from current assets:		
Accounts payable	\$ 38,303	\$ 282,984
Accrued purchased power	725,851	765,187
Due to City	29,671	-
Customer deposits	10,224	20,824
Accrued liabilities:		
Payroll taxes	15,340	15,367
Other	<u>53,233</u>	<u>36,265</u>
 Total current liabilities	 872,622	 1,120,627
 Compensated absences	 <u>81,251</u>	 <u>84,299</u>
 Total liabilities	 <u>953,873</u>	 <u>1,204,926</u>
 <b>Net Assets</b>		
Invested in capital assets, net of related debt	12,122,677	11,782,237
Unrestricted	<u>7,112,673</u>	<u>7,382,839</u>
 Total net assets	 <u>\$ 19,235,350</u>	 <u>\$ 19,165,076</u>

**Hillsdale Board of Public Utilities**  
**Electric Fund**  
**Statements of Revenues, Expenses**  
**and Changes in Net Assets**  
**For the Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Operating Revenue</b>		
Sales to customers:		
Residential	\$ 3,075,211	\$ 3,034,653
Business	957,840	934,375
Commercial	2,325,427	2,247,887
Industry	3,765,529	4,366,020
Street light sales	34,197	32,709
Other operating income	<u>31,141</u>	<u>42,381</u>
 Total operating revenue	 <u>10,189,345</u>	 <u>10,658,025</u>
<b>Operating Expenses</b>		
Purchased power	7,445,141	6,674,819
Production expense	948,546	945,082
Transmission and distribution	935,666	889,141
Administrative and general	<u>884,882</u>	<u>894,682</u>
 Total operating expenses	 <u>10,214,235</u>	 <u>9,403,724</u>
<b>Operating Income (Loss)</b>	<u>(24,890)</u>	<u>1,254,301</u>
<b>Non-operating Revenue (Expense)</b>		
Interest income	29,010	83,349
Other non-operating income (expense)	<u>66,155</u>	<u>76,804</u>
 Total non-operating revenue (expense)	 <u>95,165</u>	 <u>160,153</u>
<b>Change in Net Assets</b>	70,275	1,414,454
<b>Net Assets, Beginning of Year</b>	<u>19,165,075</u>	<u>17,750,622</u>
<b>Net Assets, End of Year</b>	<u>\$ 19,235,350</u>	<u>\$ 19,165,076</u>

**Hillsdale Board of Public Utilities**  
**Electric Fund**  
**Schedules of Operating Expenses**  
**For the Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Purchased power</b>		
Purchased power	\$ 8,991,221	\$ 9,209,079
Power cost adjustment	(1,530,030)	(1,369,074)
Gain on investment in MSCPA	<u>(16,050)</u>	<u>(1,165,186)</u>
Total purchased power	<u>\$ 7,445,141</u>	<u>\$ 6,674,819</u>
<b>Production expense</b>		
Depreciation	\$ 265,887	\$ 271,141
Engine fuels	72,158	167,385
Production operation	396,855	366,280
Production maintenance	<u>213,646</u>	<u>140,276</u>
Total production expense	<u>\$ 948,546</u>	<u>\$ 945,082</u>
<b>Transmission and distribution expense</b>		
Depreciation	\$ 287,227	\$ 271,810
Distribution operation	287,517	254,047
Distribution maintenance	<u>360,922</u>	<u>363,284</u>
Total transmission and distribution expense	<u>\$ 935,666</u>	<u>\$ 889,141</u>
<b>Administrative and general expense</b>		
Payment in lieu of tax	\$ 306,704	\$ 323,933
Depreciation	93,642	75,679
Customer accounts expense	78,160	119,726
Customer service and information expense	27,443	27,295
Sales expense	359	519
Administration operation	374,856	342,109
Administration maintenance	<u>3,718</u>	<u>5,421</u>
Total administrative and general expense	<u>\$ 884,882</u>	<u>\$ 894,682</u>

**Hillsdale Board of Public Utilities**  
**Water Fund**  
**Statements of Net Assets**  
**June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 69,780	\$ 73,788
Interest receivable	2,875	6,045
Inventory	93,103	76,984
Prepaid expenses	<u>16,192</u>	<u>11,840</u>
Total current assets	<u>181,950</u>	<u>168,657</u>
Restricted and designated assets:		
Designated investments	223,859	320,480
Restricted investments	<u>600,926</u>	<u>590,817</u>
Total restricted and designated assets	<u>824,785</u>	<u>911,297</u>
Capital assets:		
Property, plant and equipment, at cost	9,980,214	9,499,604
Less: accumulated depreciation	<u>(3,925,835)</u>	<u>(3,772,181)</u>
Total capital assets	<u>6,054,379</u>	<u>5,727,423</u>
Total assets	<u>7,061,114</u>	<u>6,807,377</u>



	<u>2004</u>	<u>2003</u>
<b>Liabilities</b>		
Current liabilities payable from current assets:		
Accounts payable	\$ 10,500	\$ 37,046
Due to other funds of BPU	1,020,155	693,226
Due to City	2,257	-
Customer deposits	<u>1,080</u>	<u>3,122</u>
Total current liabilities payable from current assets	<u>1,033,992</u>	<u>733,394</u>
Current liabilities payable from restricted assets:		
Bonds payable	235,000	225,000
Accrued interest	<u>40,720</u>	<u>43,497</u>
Total current liabilities payable from restricted assets	<u>275,720</u>	<u>268,497</u>
Compensated absences payable	<u>30,749</u>	<u>25,989</u>
Long-term debt, net of current maturities:		
Bonds payable	<u>3,580,000</u>	<u>3,815,000</u>
Total liabilities	<u>4,920,461</u>	<u>4,842,880</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	2,239,379	1,687,423
Restricted for debt service	600,925	322,320
Unrestricted (deficit)	<u>(699,651)</u>	<u>(45,246)</u>
Total net assets	<u>\$ 2,140,653</u>	<u>\$ 1,964,497</u>

**Hillsdale Board of Public Utilities**  
**Water Fund**  
**Statements of Revenues, Expenses**  
**and Changes in Net Assets**  
**For the Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Operating Revenue</b>		
Sales to customers:		
Residential	\$ 454,808	\$ 427,511
Business	123,538	110,965
Commercial	194,147	168,295
Industry	117,313	103,662
Apartment	215,664	206,616
Other operating income	<u>3,265</u>	<u>7,540</u>
 Total operating revenue	 <u>1,108,735</u>	 <u>1,024,589</u>
 <b>Operating Expenses</b>		
Production expense	63,012	46,474
Purification expense	205,026	185,967
Distribution expense	304,850	311,345
Administrative and general	<u>222,606</u>	<u>192,499</u>
 Total operating expenses	 <u>795,494</u>	 <u>736,285</u>
 <b>Operating Income (Loss)</b>	 <u>313,241</u>	 <u>288,304</u>
 <b>Non-operating Revenue (Expense)</b>		
Interest income	9,870	28,532
Interest expense	(165,657)	(223,423)
Other non-operating income (expense)	<u>18,702</u>	<u>(14,756)</u>
 Total non-operating revenue (expense)	 <u>(137,085)</u>	 <u>(209,647)</u>
 <b>Change in Net Assets</b>	 176,156	 78,657
 <b>Net Assets, Beginning of Year</b>	 <u>1,964,497</u>	 <u>1,885,840</u>
 <b>Net Assets, End of Year</b>	 <u>\$ 2,140,653</u>	 <u>\$ 1,964,497</u>

**Hillsdale Board of Public Utilities**  
**Water Fund**  
**Schedules of Operating Expenses**  
**For the Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Production expense</b>		
Depreciation	\$ 7,595	\$ 7,445
Production operation	31,717	29,829
Production maintenance	<u>23,700</u>	<u>9,200</u>
 Total production expense	 <u>\$ 63,012</u>	 <u>\$ 46,474</u>
 <b>Purification expense</b>		
Depreciation	\$ 58,038	\$ 58,043
Chemical expense	36,485	30,927
Purification operation	90,720	84,724
Purification maintenance	<u>19,783</u>	<u>12,273</u>
 Total purification expense	 <u>\$ 205,026</u>	 <u>\$ 185,967</u>
 <b>Distribution expense</b>		
Depreciation	\$ 116,516	\$ 100,490
Distribution operation	94,089	96,808
Distribution maintenance	<u>94,245</u>	<u>114,047</u>
 Total transmission and distribution expense	 <u>\$ 304,850</u>	 <u>\$ 311,345</u>
 <b>Administrative and general expense</b>		
Payment in lieu of tax	\$ 29,150	\$ 24,257
Depreciation	6,111	860
Customer accounts expense	42,657	46,787
Customer service and information expense	9,304	10,230
Sales expense	115	94
Administration operation	133,919	108,401
Administration maintenance	<u>1,350</u>	<u>1,870</u>
 Total administrative and general expense	 <u>\$ 222,606</u>	 <u>\$ 192,499</u>

**Hillsdale Board of Public Utilities**  
**Water Fund**  
**Schedule of Bonded Debt**  
**June 30, 2004**

**Revenue Refunding Bonds - Series 2002**

<b>Date</b>	<b>Rate</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
October 1, 2004	3.000%	\$ 20,000	\$ 28,004	\$ 48,004
April 1, 2005			27,704	27,704
October 1, 2005	3.000%	140,000	27,704	167,704
April 1, 2006			25,604	25,604
October 1, 2006	3.000%	140,000	25,604	165,604
April 1, 2007			23,504	23,504
October 1, 2007	3.000%	150,000	23,504	173,504
April 1, 2008			21,254	21,254
October 1, 2008	3.000%	155,000	21,254	176,254
April 1, 2009			18,929	18,929
October 1, 2009	3.200%	155,000	18,929	173,929
April 1, 2010			16,449	16,449
October 1, 2010	3.450%	160,000	16,449	176,449
April 1, 2011			13,689	13,689
October 1, 2011	3.550%	170,000	13,689	183,689
April 1, 2012			10,672	10,672
October 1, 2012	3.625%	175,000	10,672	185,672
April 1, 2013			7,500	7,500
October 1, 2013	4.000%	185,000	7,500	192,500
April 1, 2014			3,800	3,800
October 1, 2014	4.000%	190,000	3,800	193,800
<b>Totals</b>		<b>\$ 1,640,000</b>	<b>\$ 366,214</b>	<b>\$ 2,006,214</b>

**Hillsdale Board of Public Utilities**  
**Water Fund**  
**Schedule of Bonded Debt**  
**June 30, 2004**

**Unrefunded portion of Revenue Bonds - Series 1994**

<u>Date</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
October 1, 2004	5.60%	\$ 115,000	\$ 3,220	\$ 118,220
<b>Totals</b>		<u>\$ 115,000</u>	<u>\$ 3,220</u>	<u>\$ 118,220</u>

**Hillsdale Board of Public Utilities****Water Fund****Schedule of Bonded Debt****June 30, 2004****Revenue Bonds - Series 1999**

<b>Date</b>	<b>Rate</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
October 1, 2004	4.750%	\$ 100,000	\$ 50,216	\$ 150,216
April 1, 2005			47,841	47,841
October 1, 2005	4.750%	105,000	47,841	152,841
April 1, 2006			45,347	45,347
October 1, 2006	4.750%	110,000	45,347	155,347
April 1, 2007			42,734	42,734
October 1, 2007	4.750%	110,000	42,734	152,734
April 1, 2008			40,122	40,122
October 1, 2008	4.750%	115,000	40,122	155,122
April 1, 2009			37,391	37,391
October 1, 2009	4.750%	120,000	37,391	157,391
April 1, 2010			34,541	34,541
October 1, 2010	4.750%	130,000	34,541	164,541
April 1, 2011			31,453	31,453
October 1, 2011	4.750%	135,000	31,453	166,453
April 1, 2012			28,247	28,247
October 1, 2012	4.800%	140,000	28,247	168,247
April 1, 2013			24,887	24,887
October 1, 2013	4.875%	145,000	24,887	169,887
April 1, 2014			21,353	21,353
October 1, 2014	4.900%	155,000	21,353	176,353
April 1, 2015			17,555	17,555
October 1, 2015	5.000%	160,000	17,555	177,555
April 1, 2016			13,555	13,555
October 1, 2016	5.050%	170,000	13,555	183,555
April 1, 2017			9,262	9,262
October 1, 2017	5.050%	180,000	9,262	189,262
April 1, 2018			4,718	4,718
October 1, 2018	5.100%	185,000	4,718	189,718
<b>Totals</b>		<b>\$ 2,060,000</b>	<b>\$ 848,228</b>	<b>\$ 2,908,228</b>

# Hillsdale Board of Public Utilities

## Sewer Fund

### Statements of Net Assets

June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 190,361	\$ 362,578
Accounts receivable	84,106	79,989
Interest receivable	5,099	4,890
Due from other funds of BPU	1,019,112	693,226
Due from City	63,075	63,075
Inventory	5,624	6,205
Prepaid expenses	26,713	22,419
Total current assets	<u>1,394,090</u>	<u>1,232,382</u>
Restricted and designated assets:		
Designated investments	266,026	344,054
Restricted investments	560,633	556,721
Total restricted and designated assets	<u>826,659</u>	<u>900,775</u>
Capital assets:		
Property, plant and equipment, at cost	12,998,609	12,811,277
Less: accumulated depreciation	8,484,151	8,228,743
Total capital assets	<u>4,514,458</u>	<u>4,582,534</u>
Total assets	<u>6,735,207</u>	<u>6,715,691</u>

	<u>2004</u>	<u>2003</u>
<b>Liabilities</b>		
Current liabilities payable from current assets:		
Accounts payable	\$ 25,365	\$ 37,018
Due to other funds of BPU	13,464	-
Due to City	12,701	-
Accrued liabilities		
Total current liabilities payable from current assets	<u>51,530</u>	<u>37,018</u>
Current liabilities payable from restricted assets:		
Bonds payable	140,000	135,000
Accrued interest	6,800	7,475
Total current liabilities payable from restricted assets	<u>146,800</u>	<u>142,475</u>
Compensated absences payable	<u>31,926</u>	<u>29,218</u>
Long-term debt, net of current maturities:		
Bonds payable	<u>1,220,000</u>	<u>1,360,000</u>
Total liabilities	<u>1,450,256</u>	<u>1,568,711</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	3,154,459	3,087,534
Restricted for debt service	560,633	414,246
Unrestricted (deficit)	<u>1,569,859</u>	<u>1,645,200</u>
Total net assets	<u>\$ 5,284,951</u>	<u>\$ 5,146,980</u>



**Hillsdale Board of Public Utilities**  
**Sewer Fund**  
**Statements of Revenues, Expenses**  
**and Changes in Net Assets**  
**For the Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Operating Revenue</b>		
Sales to customers:		
Residential	\$ 444,044	\$ 469,417
Business	115,750	117,519
Commercial	199,593	200,152
Industry	152,612	150,231
Apartment	214,467	220,273
Other operating income	<u>22,853</u>	<u>26,634</u>
Total operating revenue	<u>1,149,319</u>	<u>1,184,226</u>
<b>Operating Expenses</b>		
Sewer collection system expense	204,281	136,259
Treatment expense	588,623	560,883
Administrative and general	<u>197,636</u>	<u>176,756</u>
Total operating expenses	<u>990,540</u>	<u>873,898</u>
<b>Operating Income</b>	<u>158,779</u>	<u>310,328</u>
<b>Non-operating Revenue (Expense)</b>		
Interest income	10,404	46,704
Interest expense	(29,225)	(31,925)
Other non-operating income (expense)	<u>(1,987)</u>	<u>4,053</u>
Total non-operating revenue (expense)	<u>(20,808)</u>	<u>18,832</u>
<b>Change in Net Assets</b>	137,971	329,160
<b>Net Assets, Beginning of Year</b>	<u>5,146,980</u>	<u>4,817,820</u>
<b>Net Assets, End of Year</b>	<u>\$ 5,284,951</u>	<u>\$ 5,146,980</u>

**Hillsdale Board of Public Utilities**  
**Sewer Fund**  
**Schedules of Operating Expenses**  
**For the Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Sewer collection system expense</b>		
Depreciation	\$ 46,698	\$ 46,226
Collection operation	45,490	21,607
Collection maintenance	<u>112,093</u>	<u>68,426</u>
 Total sewer collection system expense	 <u>\$ 204,281</u>	 <u>\$ 136,259</u>
 <b>Treatment expense</b>		
Depreciation	\$ 219,607	\$ 206,454
Chemical expense	7,469	8,502
Treatment operation	264,606	253,044
Treatment maintenance	<u>96,941</u>	<u>92,883</u>
 Total treatment expense	 <u>\$ 588,623</u>	 <u>\$ 560,883</u>
 <b>Administrative and general expense</b>		
Payment in lieu of tax	\$ 33,855	\$ 35,666
Depreciation	6,111	2,926
Customer accounts expense	33,395	33,839
Customer service and information expense	9,209	10,040
Sales expense	115	94
Administration operation	113,602	92,335
Administration maintenance	<u>1,349</u>	<u>1,856</u>
 Total administrative and general expense	 <u>\$ 197,636</u>	 <u>\$ 176,756</u>

**Hillsdale Board of Public Utilities**  
**Sewer Fund**  
**Schedule of Bonded Debt**  
**June 30, 2004**

Michigan Municipal Bond Authority - March 26, 1992

<u>Date</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
October 1, 2004			\$ 13,600	\$ 13,600
April 1, 2005	2.00%	\$ 140,000	13,600	153,600
October 1, 2005			12,200	12,200
April 1, 2006	2.00%	140,000	12,200	152,200
October 1, 2006			10,800	10,800
April 1, 2007	2.00%	145,000	10,800	155,800
October 1, 2007			9,350	9,350
April 1, 2008	2.00%	150,000	9,350	159,350
October 1, 2008			7,850	7,850
April 1, 2009	2.00%	150,000	7,850	157,850
October 1, 2009			6,350	6,350
April 1, 2010	2.00%	155,000	6,350	161,350
October 1, 2010			4,800	4,800
April 1, 2011	2.00%	155,000	4,800	159,800
October 1, 2011			3,250	3,250
April 1, 2012	2.00%	160,000	3,250	163,250
October 1, 2012			1,650	1,650
April 1, 2013	2.00%	165,000	1,650	166,650
<b>Totals</b>		<u>\$ 1,360,000</u>	<u>\$ 139,700</u>	<u>\$ 1,499,700</u>



September 9, 2004

Board Members  
Hillsdale Board of Public Utilities  
Hillsdale, Michigan

We have audited the financial statements of the Hillsdale Board of Public Utilities (the BPU) for the year ended June 30, 2004, and have issued our report thereon dated August 4, 2004. In planning and performing our audit of the general-purpose financial statements of the BPU, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control.

The Management of the BPU is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide the Board with a reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with the Board's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of the inherent limitations in any system of internal control, errors and irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluations made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion of the system of internal accounting control of the BPU taken as a whole. However, our study and evaluation disclosed no conditions that we believe to be a material weakness.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement proposal, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the BPU. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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**WILLIS & JURASEK, P.C.**

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Our Responsibility under Generally Accepted Auditing Standards (Continued)

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the BPU's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the BPU are described in Note 1 to the financial statements. No new accounting policies were adopted and no other applications of existing policies were changed during the current year. We noted no transactions entered into by the BPU during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no material estimates recorded in the current year.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the BPU's financial reporting process (that is, cause future financial statements to be materially misstated). There were no significant audit adjustments recorded at year-end.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the BPU's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comment and Recommendations

We found no significant issues that warrant comment or recommendation for change.

This information is intended solely for the use of the BPU Board and management of the BPU and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the BPU and its staff for the cooperation extended to us during our audit and would be happy to discuss any of the comments in detail if you so desire.

Sincerely,

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.